

Abstract

In Malaysia, the Pay-As-You-Earn (PAYE) system, known as the Schedular Tax Deduction Scheme (STD) or 'Potongan Cukai Berjadual (PCB)' in the Malay Language, was first introduced in 1995 through Income Tax (Deduction from Remuneration) Rules 1994. The STD scheme shifts the responsibility of tax collection from the Inland Revenue Board (IRB) to the employers who are now charged with the duty to deduct monthly taxes from employees and to remit the amount to IRB by the 10th of the following month. The aim is to ensure an efficient manner of collecting tax from employees through salary deductions by employers. The STD scheme is central to employees in the era of Self Assessment System (SAS), which takes effect from 2004. However, since its introduction in 1995, it is not known whether the implementation of STD scheme in Malaysia has achieved its intended purpose or not particularly on SMEs. The cost of compliance for the employers under the STD system is also unknown. As far as this study is concerned, there has been no empirical study conducted to find out the compliance costs borne by the employers of SMEs under the administration of the STD system. Therefore, the objective of this study is to find out the compliance costs borne by employers of SMEs under the STD system. Findings from this study have shown that smaller size SMEs incurred a high compliance cost compare to a larger size SMEs. This exploratory attempt is essential to provide preliminary strategic information to policy makers in the Inland Revenue Board (IRB) to examine the relevancy of STD system on SMEs thus improve the efficiency and productivity of the STD administration system without putting the burden especially on smaller SMEs. In addition, it further pointed to the associated costs that are currently faced by the employers of SMEs in trying to comply with the STD system.

Keywords: Schedular Tax Deduction Scheme (STD), Small Medium Enterprises (SMEs), compliance costs, and employers.